

USDC SCAN INDEX SHEET



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3:96-CV-01307 TELIOS PHARMACEUTICA V. MERCK KGAA

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1 WILLIAM C. ROOKLIDGE (No. 134483)  
 2 MATTHEW F. WEIL (No. 157505)  
 3 LEE M. GORDON (No. 174168)  
 4 HOWARD, RICE, NEMEROVSKI, CANADY,  
 5 FALK & RABKIN  
 6 A Professional Corporation  
 7 610 Newport Center Drive, Suite 450  
 8 Newport Beach, California 92660-6435  
 9 Telephone: 949/721-6900  
 10 Facsimile: 949/721-6910

11 M. PATRICIA THAYER (No. 90818)  
 12 HOWARD, RICE, NEMEROVSKI, CANADY,  
 13 FALK & RABKIN  
 14 A Professional Corporation  
 15 Three Embarcadero Center, 7th Floor  
 16 San Francisco, California 94111-4065  
 17 Telephone: 415/434-1600  
 18 Facsimile: 415/217-5910

19 TALIVALDIS CEPURITIS  
 20 OLSON & HIERL, LTD.  
 21 20 North Wacker Drive, 36th Floor  
 22 Chicago, Illinois 60606  
 23 Telephone: 312/580-1180  
 24 Facsimile: 312/580-1189

25 Attorneys for Defendants and  
 26 Counterclaimants MERCK KGaA, THE  
 27 SCRIPPS RESEARCH INSTITUTE and  
 28 DR. DAVID A. CHERESH

UNITED STATES DISTRICT COURT  
 SOUTHERN DISTRICT OF CALIFORNIA

**ORIGINAL**

19 INTEGRA LIFESCIENCES I, LTD., a  
 20 Delaware corporation, and THE  
 21 BURNHAM INSTITUTE, a California  
 22 nonprofit corporation,

Plaintiffs,

v.

23 MERCK KGaA, a German  
 24 corporation, THE SCRIPPS  
 25 RESEARCH INSTITUTE, a  
 26 California nonprofit  
 27 corporation, DR. DAVID A.  
 28 CHERESH, a California citizen,

Defendants.

AND RELATED COUNTERCLAIMS

No. 96CV-1307 TW (AJB)

REPLY IN SUPPORT OF  
 DEFENDANTS' REQUEST FOR  
 JUDICIAL NOTICE OF GERMAN  
 PATENT LAW

Hearing Off Calendar per  
 Order dated August 25,  
 1999

HOWARD  
 RICE  
 NEMEROVSKI  
 CANADY  
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## 1 INTRODUCTION

2 Plaintiffs do not contend that Defendants' Request for  
3 Judicial Notice misstates the law. To the contrary.  
4 Plaintiffs tacitly concede that German law does, in fact,  
5 exempt scientific research from claims for patent  
6 infringement. Instead, Plaintiffs argue the Court should  
7 refuse to take judicial notice of the German exemption because  
8 Defendants' Request was untimely, the exemption is not  
9 relevant to any issue the jury will decide, and learning of  
10 the exemption will be too "confusing" to the jury.

11 Plaintiffs' arguments do not hold up. The importance of  
12 the German exemption became apparent when Plaintiffs' damages  
13 expert disclosed for the first time in his late April 1999  
14 deposition that his \$20+ million damages calculation is based  
15 on an assumption that Defendants could not have performed the  
16 accused research in Germany without incurring liability for  
17 patent infringement. In fact, that assumption is wrong.  
18 Defendants could have performed their research in Germany--  
19 where Defendant Merck is located--without infringing anyone's  
20 patents, because German law exempts research activity from  
21 infringement claims. Thus, to fully evaluate Plaintiffs'  
22 damages theory, the jury needs to know of the German research  
23 exemption. The way to do that is for the Court to take  
24 judicial notice of the law and instruct the jury on it.

25 None of Plaintiffs' excuses for trying to prevent the  
26 jury from learning of the exemption has merit. Defendants'  
27 Request was timely; it complies with Rule 44.1; and the German  
28 exemption is highly relevant to a key issue in the case.

96CV-1307 TW (AJB)

## I.

THE GERMAN RESEARCH EXEMPTION DIRECTLY REBUTS  
PLAINTIFFS' DAMAGES ANALYSIS.

Plaintiffs urge the Court to refuse judicial notice of the German exemption because they claim it is "collateral to the real issues" here. Plaintiffs' Opposition to Defendants' Request for Judicial Notice ("Pl. Opp.") at 5:17-18.

Nothing could be further from the truth. One of the "real issues" in the case is damages. Plaintiffs' expert says that he arrived at his \$20+ million damages number based on an assumption--imposed on him by Plaintiffs' counsel--that Defendant could not have performed the accused research in Germany without infringing someone's patents. As a result, Plaintiffs' damages theory is based on the assumption that Merck's "next-best alternative" to the alleged infringement would have been to pursue new mimetic research in the U.S. (which Plaintiffs' expert claims would have cost Defendants more than \$20 million) instead of simply performing the peptide research in Germany--a very low-cost alternative.

The German research exemption shows that Plaintiffs' assumptions are wrong, and that Plaintiffs' damages expert therefore relied on a false premise. There is nothing "collateral" about destroying the credibility of Plaintiffs' damage expert and exposing the inaccuracy of his opinion.

## II.

DEFENDANTS' REQUEST FOR JUDICIAL NOTICE IS NOT  
"UNTIMELY."

Plaintiffs' suggestion that Defendants' Request is

1 "untimely" is baseless. The purpose of Rule 44.1 notice is  
 2 "[t]o avoid unfairly surprising opposing parties." Stuart v.  
 3 United States, 813 F.2d 243, 251 (9th Cir. 1987), rev'd on  
 4 other grounds, 489 U.S. 353 (1989); see Request at 2.  
 5 Plaintiffs cannot claim they were "unfairly surprised" to  
 6 learn the German exemption is relevant, since it was their own  
 7 assumption--which they instructed their damages witness to  
 8 build into his damages calculation--that made it relevant.<sup>1</sup>

9 Plaintiffs argue that Defendants' Request is "untimely"  
 10 because Defendants did not raise the German exemption "at any  
 11 point during the course of the litigation" (Request at 1:3-6)  
 12 and Plaintiffs therefore have been "prejudiced" because they  
 13 had no "opportunity to engage their own expert" on the  
 14 subject. Id. at 1:24-25. Plaintiffs are wrong on both points.

15 Defendants' expert, Bruce Den Uyl, testified in his  
 16 deposition to his assumption that Defendants did have the  
 17 option of conducting their research in Germany. Mr. Den Uyl  
 18 also raised the German alternative in his expert report  
 19 rebutting Mr. Anderson's opinion testimony. Clearly, the  
 20 German alternative was a subject in expert discovery.

21 Moreover, Plaintiffs have had months to get an expert  
 22 on the subject. The minute Plaintiffs told their expert,  
 23 early this year, to assume Defendants could not have done  
 24

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25 <sup>1</sup> Plaintiffs admit that "[t]he only reason German law  
 26 became an 'issue' in this case is because Defendants sought to  
 27 rebut Plaintiffs' damage analysis by arguing that they could  
 28 have carried out their research in Europe where German patent  
 law allegedly exempts such research." Pl. Opp. at 4:18-22  
 (emphasis added).

1 their research in Germany without infringing patents,  
 2 Plaintiffs knew German patent law would be relevant. If they  
 3 had genuinely wanted an expert to support that assumption,  
 4 they had every opportunity to get one. Having chosen to do  
 5 nothing to support their assumption, they cannot now claim to  
 6 be "prejudiced" by their own inaction. If Plaintiffs are  
 7 permitted to seek \$20 million based on an assumption about  
 8 what German patent law precludes, Defendants must be permitted  
 9 to put facts before the jury--including what German law  
 10 actually provides--that prove Plaintiffs' assumption is false.

### 11 III.

#### 12 THIS COURT CAN PROPERLY TAKE JUDICIAL NOTICE OF 13 THE GERMAN RESEARCH EXEMPTION.

14 Having failed to make any credible argument on  
 15 "relevance" and "timeliness," Plaintiffs resort to a series of  
 16 scatter-shot arguments. None of them has merit.

#### 17 A. No Expert Testimony Is Needed Either To Tell The Court 18 What The Law Is Or To Explain How It Should Be Applied.

19 Plaintiffs argue this Court should not take judicial  
 20 notice of the German exemption because Defendants do not offer  
 21 an expert to tell the Court what the law is or to explain how  
 22 the law relates to the facts. Both arguments are wrong.

23 First, a request for judicial notice does not require  
 24 expert testimony. See Fed. R. Civ. P. 44.1 ("in determining  
 25 foreign law, [the court] may consider any relevant material or  
 26 source."). See In Re Trans Chem. Ltd., 978 F. Supp. 266, 275  
 27 (S.D. Tex. 1997), aff'd, 161 F.3d 314 (5th Cir. 1998) (expert  
 28 testimony is not a "necessity in establishing foreign law";

1 court may rely on "foreign case law decisions, treatises, and  
 2 learned articles"); Request at 1-4. Defendants' Request  
 3 established the existence of the German exemption with  
 4 treatises, articles and testimony of their employees. That is  
 5 more than sufficient, particularly since Plaintiffs do not  
 6 dispute the substance of the law. See Universe Sales Co. v.  
 7 Silver Castle, 51 U.S.P.Q.2d 1197, 1199 (9th Cir. 1999) (error  
 8 for court to disregard unrebutted showing of relevant foreign  
 9 law.)

10 Second, the Court needs no expert to tell it what the  
 11 law is. That is the Court's role.<sup>2</sup> Pittway Corp. v. United  
 12 States, 88 F.3d 501, 504 (7th Cir. 1996) ("determination of  
 13 foreign law is an issue of law for the court").

14 Third, the effect of the German law on Plaintiffs'  
 15 damages assumptions is so clear that no expert is needed to  
 16 help the jury understand it. See Fed. R. Evid. 702 (expert  
 17 testimony proper where it "will assist the trier of fact to  
 18 understand the evidence"). Moreover, Defendants will  
 19 introduce testimony by Defendants' employees, including Dr.  
 20 Arno Hartmann (who worked for nine years in Merck's in-house  
 21 patent and licensing departments), and researchers Dr. Alfred  
 22 Jonczyk and Dr. Simon Goodman concerning the effect of the

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24 <sup>2</sup> It is an abrupt about-face for Plaintiffs now to insist  
 25 that Defendants need an expert to tell the Court what the law  
 26 is. Plaintiffs argued strenuously in other motions in limine  
 27 that experts could not properly "define the law." See Specht  
 28 v. Jensen, 853 F.2d 805, 810 (10th Cir. 1988) (cited in  
 Plaintiffs' Motion in Limine No. 16 at 3, 5 and in  
 Plaintiffs' Opposition to Defendant's Motion in Limine No. 1  
 at 2).

1 German exemption. These witnesses will explain Merck's  
 2 understanding that German law exempts scientific research from  
 3 infringement claims--an understanding that is consistent with  
 4 the fact that Merck has never been sued (or even threatened  
 5 with suit) as a result of its research in Germany, including  
 6 experiments similar to the accused experiments here.<sup>3</sup>

7 B. Defendants' Request Only Asks The Court To Take  
 8 Judicial Notice Of What German Law Is; It Does Not Ask  
 9 The Court To Do Any Fact Finding.

10 Plaintiffs argue that Defendants' Request asks the  
 11 Court to "take judicial notice . . . of how [the] law would be  
 12 applied, if at all, to the accused experiments in this case."  
 13 Pl. Opp. at 2:14-17. Thus, Plaintiffs suggest that Defendants  
 14 "demand" "fact finding" by the Court. Id. at 3:12-14.

15 That is false. Defendants' Proposed Order asks the

16 <sup>3</sup> Plaintiffs do not argue that they did not have a full  
 17 opportunity to depose Dr. Goodman on this issue. Although  
 18 they try to suggest that Defendants prevented them from  
 19 depositing Dr. Hartmann on the subject (Pl. Opp. at 1:8-12),  
 20 that is false. Plaintiffs deposed Dr. Hartmann only as a  
 21 Rule 30(b)(6) witness, and only on the very narrow subject of  
 22 "the licensing of patented composition of matter or methods  
 23 containing RGD peptides"--one of two Rule 30(b)(6) depositions  
 24 permitted by Court order. See Order Granting In Part and  
 25 Denying In Part Plaintiffs' Motion to Compel Deposition of  
 26 Merck KGaA Pursuant to Rule 30(b)(6) filed February 16, 1999  
 27 at 11:22-24. Thus, when Plaintiffs' counsel asked a single  
 28 question about Dr. Hartmann's then-present understanding of  
 the experimental use exemption, Defendants properly objected  
 that (1) it exceeded the scope of the 30(b)(6) deposition  
 permitted by the Court; and (2) to the extent it required  
 disclosure of communications with trial counsel, it also  
 impinged upon the attorney-client privilege. Plaintiffs could  
 have deposed Dr. Hartmann outside the Rule 30(b)(6) context  
 and could have asked Dr. Hartmann his understanding of the  
 German exception apart from his conversations with counsel,  
 but Plaintiffs chose not to do so. Thus, Plaintiffs have only  
 themselves to blame for their lack of discovery from  
 Dr. Hartmann on this subject.

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1 Court only to take "judicial notice that German patent law  
 2 includes an exemption for research." Proposed Order at 1:9-  
 3 10.<sup>4</sup> It seeks no finding of fact. It will be up to the jury  
 4 to decide the facts, including the impact of the German  
 5 exemption on Plaintiffs' faulty damage assumptions.

6 C. Whether Merck Had The Technical Ability To Perform The  
 7 Research In Germany Is A Fact Question For The Jury.

8 Plaintiffs argue the Court should not take judicial  
 9 notice of the German exemption because they claim one of  
 10 Merck's scientists testified that "Merck lacked the expertise  
 11 necessary to perform those infringing experiments" in Germany.  
 12 Pl. Opp. at 5:4-8. There are two flaws in this argument.

13 First, it is false. In truth, Dr. Jonczyk stated only  
 14 that prior to 1992 (three years before Plaintiffs contend the  
 15 hypothetical license negotiation would have taken place),  
 16 Merck was not performing cell adhesion and  $\alpha\beta 3$  binding tests  
 17 in Germany. Beckwith Decl. Ex. B (Jonczyk Depo.) at 46-47.  
 18 On the very same page of the transcript, however, Dr. Jonczyk  
 19 made clear that Merck later implemented the research at its  
 20 facilities in Germany. Id.

21 Second, this argument is irrelevant to Defendants'  
 22 Request. Whether the research could have been moved to  
 23 Germany depends on (1) what the German law is; and (2) whether

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24  
 25 <sup>4</sup> We believe it would be even clearer for the order to  
 26 state that "[t]his Court takes judicial notice that, under  
 27 German patent law, research activities are exempt from claims  
 28 for patent infringement." Accordingly, Defendants submit a  
 Revised Proposed Order reflecting this change. The substance  
 of the Revised Order, however, is no different from the  
 original.

Merck had the technical ability to do the research there. The first issue is the legal question the Court is asked to decide in Defendants' Request. The second question is a factual one, and if Plaintiffs genuinely dispute it, it is for the jury to decide. Any factual dispute on that issue has no bearing on whether judicial notice of the German law is appropriate.

D. European Patents Held By Third Parties Are Not At Issue In This Lawsuit And Have Nothing To Do With Defendants' Request For Judicial Notice.

Plaintiffs urge the Court to refuse judicial notice of the German exemption because "[t]here is no evidence of the patents in force in Europe which could block Defendants' efforts." Pl. Opp. at 5:23-24. This misses the point.

The German research exemption is relevant because it exempts research conducted in Germany from claims of infringement by any patentholder. Thus, neither Plaintiffs nor any other patent holder could have prevented Defendants from doing their research in Germany. These "other patents"--which Plaintiffs have never identified, either in their Opposition or in discovery--therefore are irrelevant to whether this Court should take judicial notice of the law.<sup>5</sup>

E. Taking Judicial Notice of Relevant German Law In No Way Impairs Plaintiffs' Right To A Jury Trial.

Plaintiffs make the argument that taking judicial

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<sup>5</sup> In any event, Plaintiffs' suggestion that the jury will have to decide "whether Defendants would infringe the patents of any of the number of possible parties under European law" (Pl. Opp. at 4:26-27) is just plain wrong. "European patents" and "patents of others" are not at issue in this lawsuit. Only Plaintiffs' United States patents--and only the allegedly infringing activity in the United States--are at issue, or could be at issue.

1 notice of a relevant German law will deprive Plaintiffs of  
2 their right to a jury trial. Pl. Opp. at 2:23-26.

3 Plaintiffs have a right to have a jury decide whether  
4 Defendants' research activities in the United States infringed  
5 their patents. That is the issue here, and Plaintiffs will  
6 have a jury trial on it. Plaintiffs have no right--  
7 constitutional or otherwise--to have a jury decide what the  
8 law is. That is the Court's role. By taking judicial notice  
9 of a German research exemption that is relevant to rebut  
10 Plaintiffs' damages assumption, this Court will in no way  
11 impair Plaintiffs' right to have the jury decide all disputed  
12 facts regarding their infringement and damages claims.<sup>6</sup>

#### 13 IV.

#### 14 THE COURT CANNOT EXCLUDE THIS RELEVANT LAW 15 UNDER RULE 403.

16 Plaintiffs suggest the Court should refuse judicial  
17 notice of the German exemption under Rule 403 because it would  
18 be too confusing to the jurors. Pl. Opp. at 4-5. This  
19 amounts to an assertion that the Court should exclude evidence  
20 that favors Defendants. Rule 403 does not support the one-  
21 sided trial Plaintiffs seek.

22 Plaintiffs cite no authority for the proposition that  
23 Rule 403 can be used to prevent the jury from considering  
24 relevant law, as opposed to relevant facts. But even if it

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25  
26 <sup>6</sup> Plaintiffs' objection that the German exemption would give  
27 Defendants a "'free pass' from any claim of patent  
28 infringement" (Pl. Opp. 5:27-28) only means that Plaintiffs do  
not like the German law. But that is no reason for this Court  
to ignore it or to refuse to take judicial notice of it.

1 could, Rule 403 permits a court to exclude relevant evidence  
 2 only where the risk of confusion and prejudice are so great  
 3 that they "substantially outweigh[]" the probative value of  
 4 the evidence. Fed. R. Evid. 403; see United States v. Mende,  
 5 43 F.3d 1298, 1302 (9th Cir. 1995) (Rule 403 "is an  
 6 extraordinary remedy, to be used sparingly" (citation  
 7 omitted)). Plaintiffs do not--and cannot--show this standard  
 8 is met. There is nothing confusing about the German  
 9 exemption; it is simple and easy to understand. There is no  
 10 reason to believe the jury would not be able to properly  
 11 consider it in reaching their decision about damages. And  
 12 there is no question the law is highly relevant. Under these  
 13 circumstances, there is no basis for excluding this relevant  
 14 law under Rule 403.

#### 15 CONCLUSION

16 For all these reasons, Defendants' Request For Judicial  
 17 Notice should be granted.

18 DATED: September 10, 1999

19 HOWARD, RICE, NEMEROVSKI, CANADY,  
 20 FALK & RABKIN  
 A Professional Corporation

21 OLSON & HIERL, LTD.

22 By: 

23 WILLIAM C. ROOKLIDGE

24 Attorneys for Defendants and  
 25 Counterclaimants MERCK KGaA, THE  
 26 SCRIPPS RESEARCH INSTITUTE and  
 27 DR. DAVID A. CHERESH  
 28

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